

State of Alaska FY2010 Governor's Operating Budget

Department of Commerce, Community, and Economic Development Insurance Operations RDU/Component Budget Summary

RDU/Component: Insurance Operations*(There is only one component in this RDU. To reduce duplicate information, we did not print a separate RDU section.)***Contribution to Department's Mission**

To assure competitive, viable, ethical and lawful insurance is available to Alaskans.

Core Services

- Licensing
- Compliance
- Investigations
- Filing Approval
- Public Information

End Result	Strategies to Achieve End Result
<p>A: Insurance companies and persons transacting insurance comply with Alaska laws and are financially solvent.</p> <p><u>Target #1:</u> No domestic insurance company becomes insolvent</p> <p><u>Status #1:</u> Target met of no domestic insurance companies becoming insolvent during the fiscal year.</p> <p><u>Target #2:</u> 75% of investigations approved by the Director are completed within one year.</p> <p><u>Status #2:</u> Target of 75% not met, as 70% of the investigations were completed within one year.</p>	<p>A1: Timely financial examinations of domestic insurers</p> <p><u>Target #1:</u> 100% of financial examinations of domestic insurance companies are completed every three years</p> <p><u>Status #1:</u> Target of 100% of financial examinations of domestic insurance companies are completed every three years was achieved.</p> <p>A2: Efficient licensing of both insurers and persons transacting insurance business</p> <p><u>Target #1:</u> Producer applications processed within 10 days.</p> <p><u>Status #1:</u> Target of producer applications processed within 10 days was exceeded, with an average application processing time of 5 days in FY2008 for new licenses.</p> <p><u>Target #2:</u> 80% of insurance company applications processed and licenses issued within 60 days.</p> <p><u>Status #2:</u> Exceeded target of 80% with 81.83% of company applications processed in 60 days or less.</p> <p><u>Target #3:</u> Surplus lines (Unusual or Extraordinary Insurance types) applications are approved or denied within 90 days of receipt of a complete application.</p> <p><u>Status #3:</u> 14 of 15 surplus lines (Unusual or Extraordinary Insurance types) applications were completed within 90 days.</p> <p>A3: Market conduct examinations are used to assess market practices</p> <p><u>Target #1:</u> Perform market conduct examinations and market analysis to resolve compliance and market</p>

	access issues. Status #1: Target met, the division performed 12 market conduct exams.
End Result	Strategies to Achieve End Result
<p>B: Competitive, up-to-date insurance products are available to Alaskan consumers</p> <p>Target #1: No more than 65% of the Property and Casualty market is shared by the top 5 insurers. Status #1: Target of no more than 65% of the Property and Casualty market shared by the top 5 insurers was exceeded as 36.7% of the market was captured by the top 5.</p> <p>Target #2: 80% of rate and policy form filing approvals completed within 30 days. Status #2: Goal of 80% of filings completed in 30 days not met with a rate of 66.9% this year.</p>	<p>B1: Conduct public outreach programs to provide educational assistance in understanding insurance products and processes.</p> <p>Target #1: 6 outreach programs conducted annually Status #1: This goal was achieved. The director spoke to six organizations, including chambers of commerce, industry, and consumer groups.</p>

Major Activities to Advance Strategies	
<ul style="list-style-type: none"> Review and revise company licensing instructions on forms and website for clarity and completeness. Quarterly meetings with Attorney General staff to review current licensing actions/issues. Perform examinations both as desk audits and on-site audits to confirm compliance. Implement an integrated complaint and investigation tracking system. Training for investigator unit with various law enforcement agencies. Fund an assistant Attorney General with the criminal division to work with the Division of Insurance. Perform onsite/desk audits of insurers and surplus lines brokers for premium tax and fee payments. Review surplus lines insurers' financial statements utilizing software that searches for factors outside the norm, and review by staff. Staff participation in National Association of Insurance Commissioners meetings, seminars and other related training. Visit insurers to present favorable market conditions and statistics. Participate in the National Association of Insurance Commissioners "market analysis" project to modernize our approach to market oversight. Require companies to use filing checklists. 	<ul style="list-style-type: none"> Increase access to the National Association of Insurance Commissioners data base for ability to utilize the national tools available. Perform assessment of a Surplus Lines Association through a cost/benefit analysis. Develop a frequently asked questions format for publication on the web site and paper distribution. Coordinate with Corporations, Business and Professional Licensing to provide consumer education and consumer outreach. Prepare updates to the various consumer guides. Develop a public information officer to provide consistent information to the public and oversee division website. Update the public request for information process to provide efficient responses and to provide documentation of compliance with deadlines. Implement a process for desk audits or on-site audits to improve filing quality. Investigate a new connection to the System for Electronic Rate and Form Filing to allow filings analysts to efficiently process filings. Prepare Division annual report. Visit consumer groups to do informational meetings on topics of current interest. Publish consumer education materials in print, advertising, and public service announcement formats.

FY2010 Resources Allocated to Achieve Results

FY2010 Component Budget: \$6,606,200

Personnel:

Full time 53

Part time 0

Total 53**Performance**

A: Result - Insurance companies and persons transacting insurance comply with Alaska laws and are financially solvent.

Target #1: No domestic insurance company becomes insolvent

Status #1: Target met of no domestic insurance companies becoming insolvent during the fiscal year.

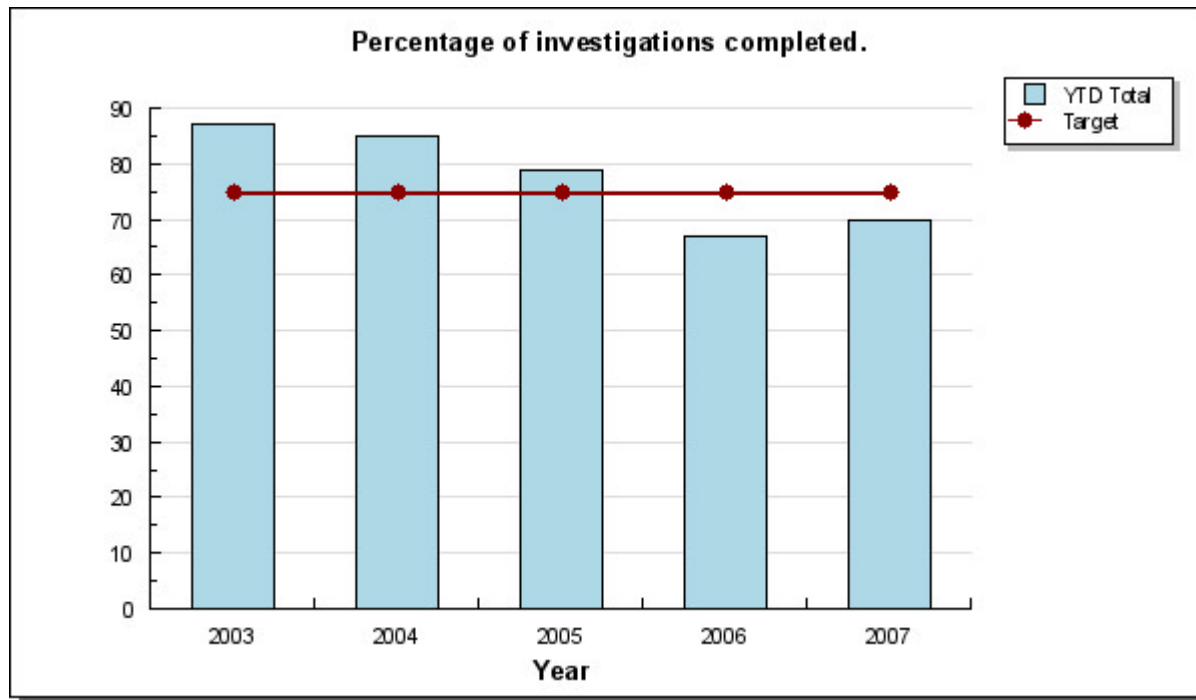
Number of insolvent insurers.

Year	YTD Total
2008	0
2007	1
2006	0
2005	0
2004	0
2003	0

Analysis of results and challenges: A Multiple Employer Welfare Association (MEWA) submitted a financial report in 2007 which may indicate that it does not have the funds to pay claims. The division is currently working with the MEWA to insure that claims can be paid, and will take whatever action is appropriate to protect policyholders.

Target #2: 75% of investigations approved by the Director are completed within one year.

Status #2: Target of 75% not met, as 70% of the investigations were completed within one year.



Methodology: This information is based upon an annual, rather than FY calendar.

Percentage of investigations completed.

Year	YTD Total	Target
2007	70 +4.48%	75 0%
2006	67 -15.19%	75 0%
2005	79 -7.06%	75 0%
2004	85 -2.3%	75 0%
2003	87	75

Analysis of results and challenges: Note that the number and complexity of investigations varies from year to year. Consequently, the percentage of completed investigations will vary.

A1: Strategy - Timely financial examinations of domestic insurers

Target #1: 100% of financial examinations of domestic insurance companies are completed every three years

Status #1: Target of 100% of financial examinations of domestic insurance companies are completed every three years was achieved.

Percent of completed financial examinations completed every three years.

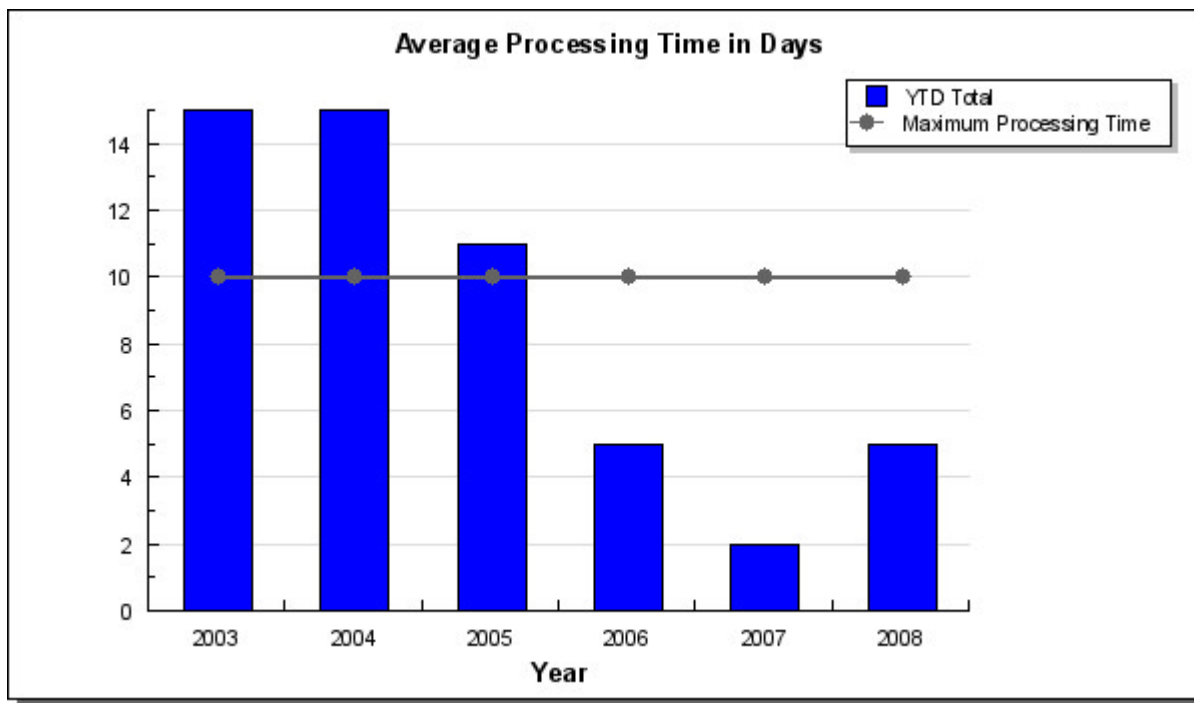
Year	YTD Total
2008	100%
2007	100%
2006	100%
2005	100%
2004	100%
2003	100%

Analysis of results and challenges: It is a Division priority to examine domestic insurance companies every three years. This is both to assure ourselves of the solvency of the companies, and to meet NAIC accreditation requirements. It is one of the most important functions of the Division—the most important consumer protection is to make sure that an insurance company is able to pay claims. Consequently, it is very likely that the Division will continue to meet this goal. Although it may seem redundant to maintain a goal that the Division consistently meets, assuring solvency is so important to the public that it should continue to remain one of the Division's top goals.

A2: Strategy - Efficient licensing of both insurers and persons transacting insurance business

Target #1: Producer applications processed within 10 days.

Status #1: Target of producer applications processed within 10 days was exceeded, with an average application processing time of 5 days in FY2008 for new licenses.



Methodology: Line is the maximum processing time.

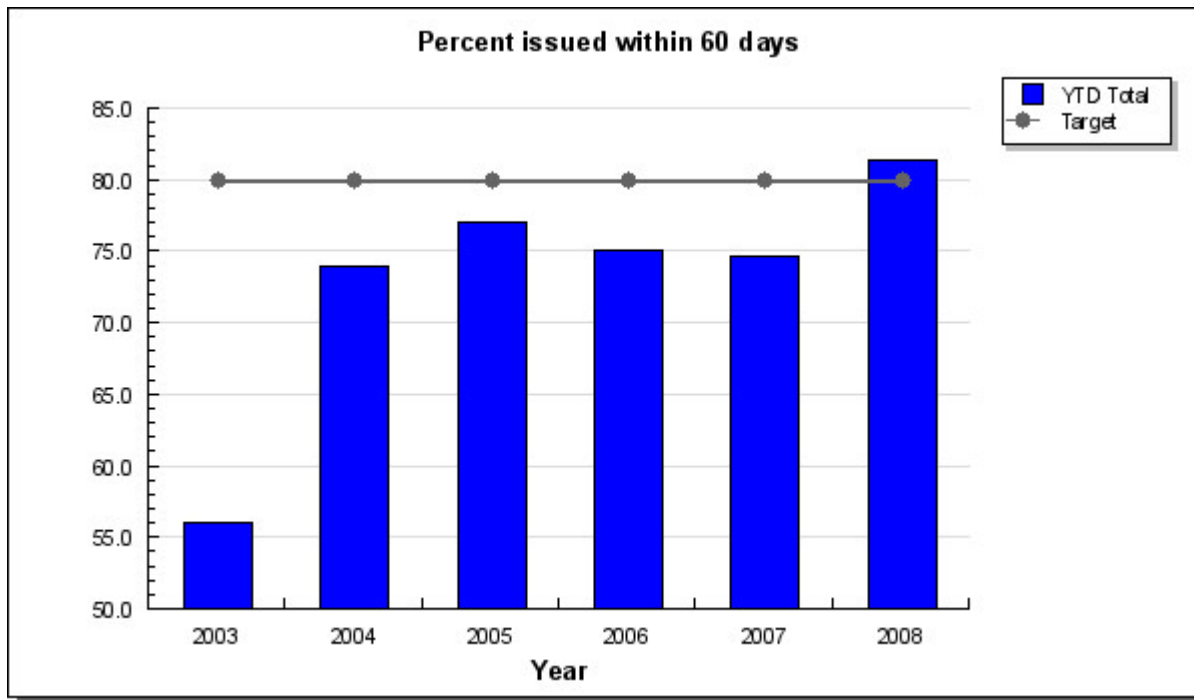
Average Processing Time in Days

Year	YTD Total	Maximum Processing Time
2008	5	10
2007	2	10
2006	5	10
2005	11	10
2004	15	10
2003	15	10

Analysis of results and challenges: The Division has increased its efficiency in this category. The average time to process applications is half of the targeted maximum processing time. Electronic processing has helped to increase our efficiency and meet our needs. High turnover was responsible for the spike in 2008. Positions have now been filled.

Target #2: 80% of insurance company applications processed and licenses issued within 60 days.

Status #2: Exceeded target of 80% with 81.83% of company applications processed in 60 days or less.

**Percent issued within 60 days**

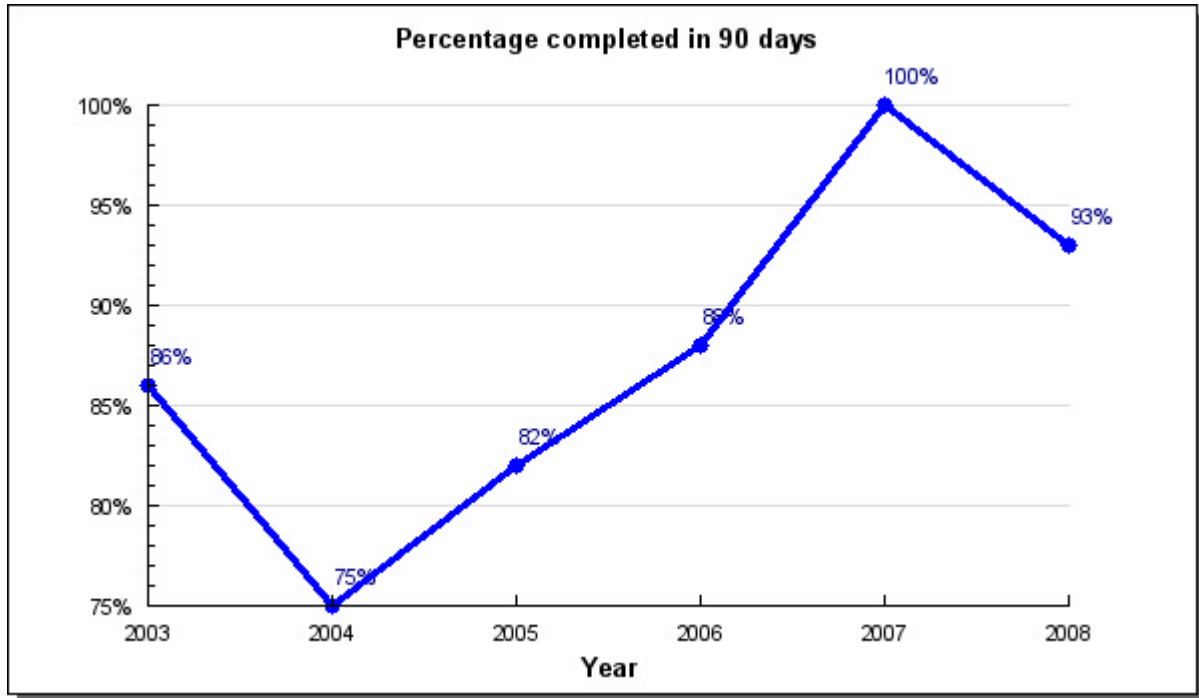
Year	YTD Total	Target
2008	81.3 +8.84%	80 0%
2007	74.7 -0.4%	80 0%
2006	75 -2.6%	80 0%
2005	77 +4.05%	80 0%
2004	74 +32.14%	80 0%
2003	56	80

Analysis of results and challenges: Electronic filing has assisted the Division in meeting its goal of processing

applications within 60 days.

Target #3: Surplus lines (Unusual or Extraordinary Insurance types) applications are approved or denied within 90 days of receipt of a complete application.

Status #3: 14 of 15 surplus lines (Unusual or Extraordinary Insurance types) applications were completed within 90 days.



Percentage completed in 90 days

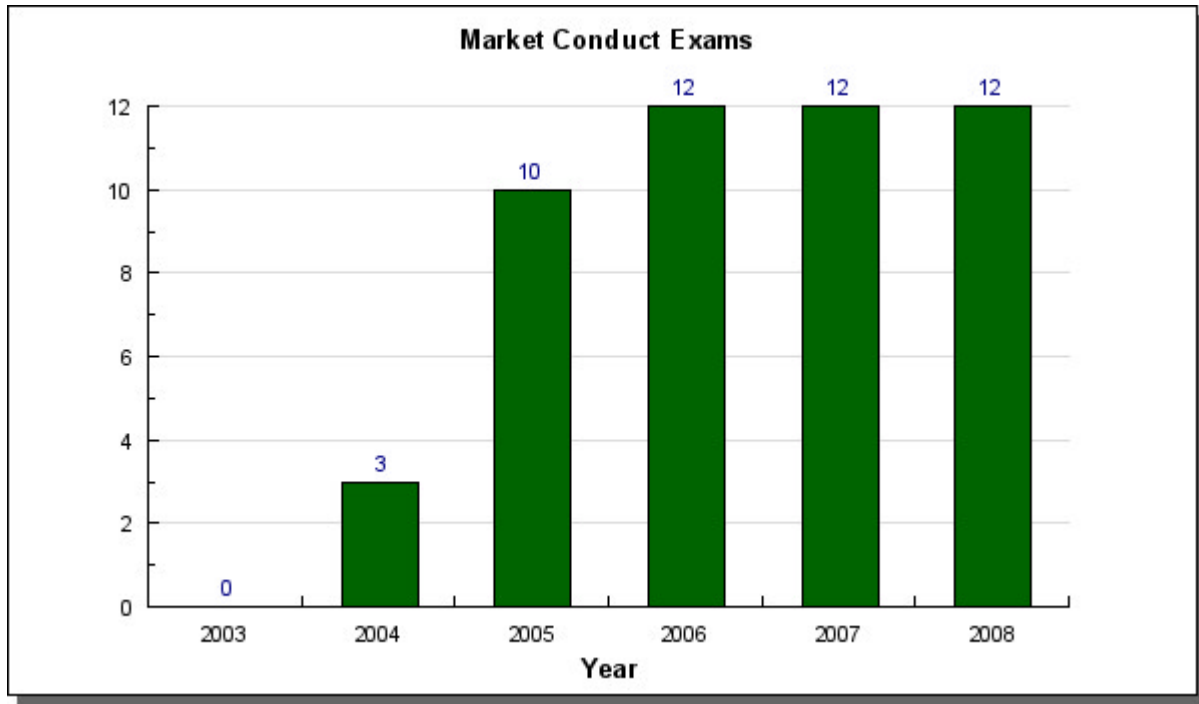
Year	YTD Total
2008	93%
2007	100%
2006	88%
2005	82%
2004	75%
2003	86%

Analysis of results and challenges: Although we were not able to complete 100% surplus lines applications within 90 days, we are still well ahead of where we were a few short years ago. Because of the nature of the product, the degree of judgment that can affect a decision on the issue, and the amount of information we may need to gather prior to making a decision, it is probable that from time to time we will not be able to decide on 100% of applications within 90 days.

A3: Strategy - Market conduct examinations are used to assess market practices

Target #1: Perform market conduct examinations and market analysis to resolve compliance and market access issues.

Status #1: Target met, the division performed 12 market conduct exams.

**Market Conduct Exams**

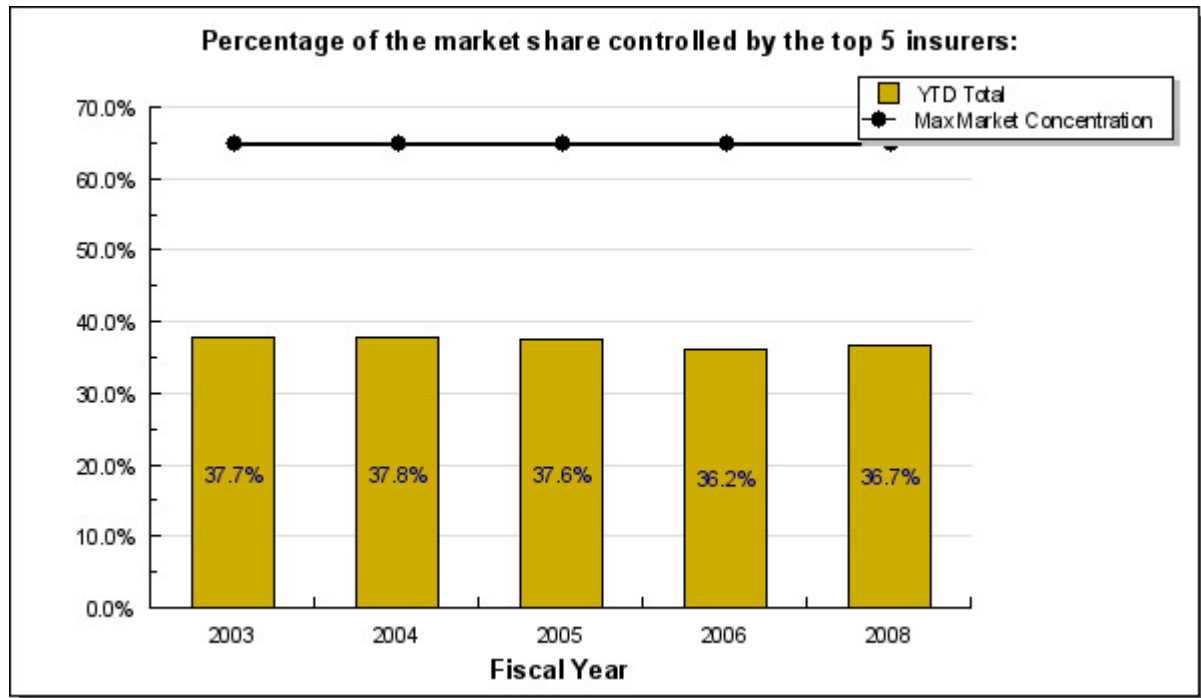
Year	YTD Total
2008	12
2007	12
2006	12
2005	10
2004	3
2003	0

Analysis of results and challenges: Market conduct exams are used to assess compliance with the law, best practices, and to correct behavior. The division participates in in-state and multi-state examinations (collaborative examinations among jurisdictions). The issues involved are varied and can range from review of sales materials, advertising, claims review and agent training. The number of issues set out in this chart represent major compliance matters that have been corrected during the relevant time-frame.

B: Result - Competitive, up-to-date insurance products are available to Alaskan consumers

Target #1: No more than 65% of the Property and Casualty market is shared by the top 5 insurers.

Status #1: Target of no more than 65% of the Property and Casualty market shared by the top 5 insurers was exceeded as 36.7% of the market was captured by the top 5.



Methodology: Line is the maximum allowed market concentration.

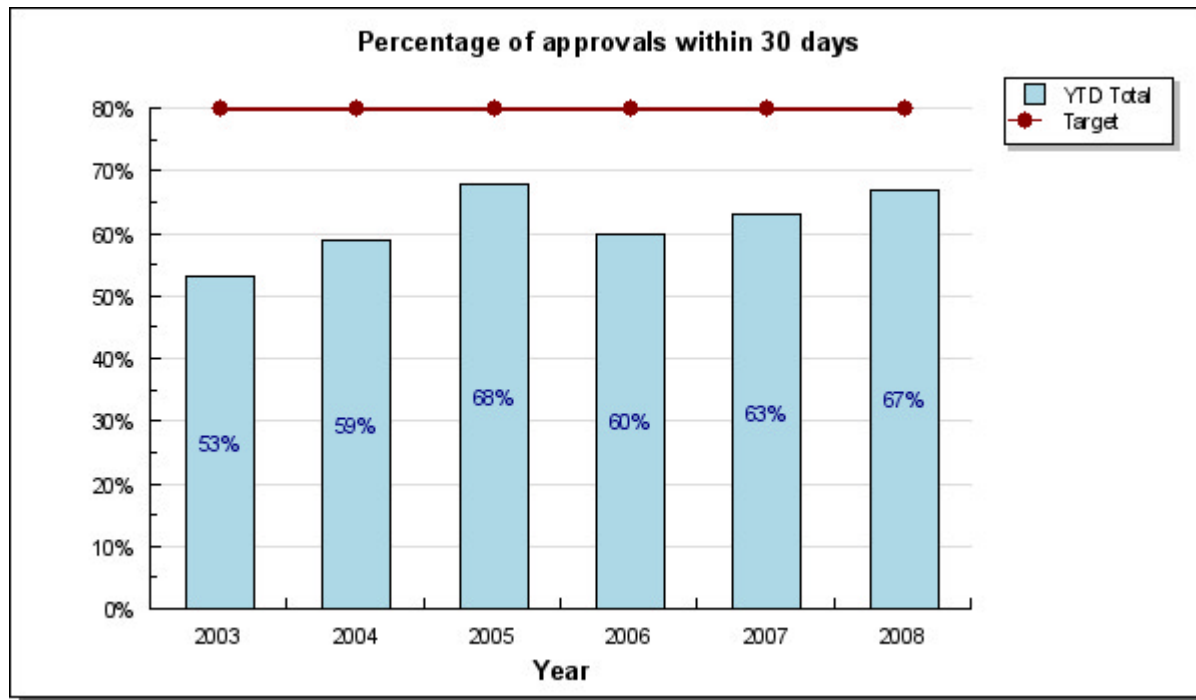
Percentage of the market share controlled by the top 5 insurers:

Fiscal Year	YTD Total	Max Market Concentration
FY 2008	36.7%	65%
FY 2006	36.2%	65%
FY 2005	37.6%	65%
FY 2004	37.8%	65%
FY 2003	37.7%	65%

Analysis of results and challenges: It appears that there is no undue concentration in the Property and Casualty markets.

Target #2: 80% of rate and policy form filing approvals completed within 30 days.

Status #2: Goal of 80% of filings completed in 30 days not met with a rate of 66.9% this year.



Percentage of approvals within 30 days

Year	YTD Total	Target
2008	67%	80%
2007	63%	80%
2006	60%	80%
2005	68%	80%
2004	59%	80%
2003	53%	80%

Analysis of results and challenges: The Division continues to work on meeting this goal. Use of automation and online processing continues improvement in this area. The filing review statute change that became effective on November 2, 2005 has helped speed up the review process. However, due to significant staff turnover, the turn-around time has increased due to training of the new analysts. As the analysts have become more experienced, the review time began to decrease. The average review time for rate and form approval in 2007 was 38 days compared to a 40 day average review period in 2006. We anticipate being able to increase the number of filings that meet the 30 day review period next year.

B1: Strategy - Conduct public outreach programs to provide educational assistance in understanding insurance products and processes.

Target #1: 6 outreach programs conducted annually

Status #1: This goal was achieved. The director spoke to six organizations, including chambers of commerce, industry, and consumer groups.

Number of programs conducted

Year	YTD Total
2007	9
2006	9
2005	6
2004	6
2003	0

Analysis of results and challenges: The Director and Deputy Director speak to numerous stakeholder groups throughout the year. This includes chambers of commerce, as well as consumer, agent, and industry groups.

Key Component Challenges

Investigations and Enforcement

The Division will continue to investigate alleged or suspected violations of insurance laws. Timely completion of investigations and either closure of the investigation or additional referrals for administrative or criminal actions is a priority requiring education and cooperation from other state agencies.

Licensing

We had 36,480 licensees at the end of FY 2008 and expect continued growth over the coming years. The increase in licensees is straining our already limited legal resources, attorneys, and hearing officers. Appeals of denied license suspensions or revocations, and other licensing matters consume an enormous amount of both attorney and hearing officer time. Even matters that do not involve litigation, such as the legal analysis involving license applicant with felony convictions, often require considerable attorney time to review and analyze.

Legal

In addition to the increased licensing matters, legal resources are needed to combat criminal insurance fraud. We have an attorney dedicated half-time to criminal prosecutions. This has enabled us to focus more on criminal investigations, particularly in the area of insurance fraud. As a result of our increased resources, the number of criminal investigations we have initiated and brought to resolution has increased dramatically.

In addition to the increased cost of legal services, the Division is challenged by an increase in the number of administrative actions that are being heard. Many administrative cases are being heard by hearing officers outside the Division. While that increases the costs to the Division, we believe that the public has benefited by increased policing of our licensees' conduct, and the deterrent effect that enforcement action has on licensees.

Insurance products and the entities that market and sell them have become increasingly complex and require more legal review as the division continues to regulate all aspects of the industry. This complexity, plus the widespread marketing of these products over media—such as the internet and television—presents a challenge to our ability to regulate the products offered and to deal with licensing issues.

Personnel

Like much of State government, the Division is challenged to find and retain qualified personnel and cope with ever-increasing administrative costs. While the Division has filled many lower level positions, attrition in those positions remains a challenge. While this negatively impacts the amount of work done by the Division, it has enabled the Division to save money while the positions remain vacant. In addition, routine salary increases for more senior staff that have remained with the Division have added to the Division's expenses.

Market Oversight

The Division responds to allegations of statutory violations in marketing, underwriting and claims handling by insurance companies. These investigations of company practices are generally handled by market conduct personnel. As the number of issues increase, our internal resources are strained and it will be more cost efficient to hire outside contractors to supplement the staff.

Financial Oversight

Oversight of the financial solvency of insurance companies is a primary regulatory function. Monitoring the financial

performance of the companies who conduct business in Alaska requires efficient utilization of resources. We monitor the solvency of our domestic insurers, and others, to make sure that companies are able to pay claims. As a result of our work, we were able to determine that a Multiple Employer Welfare Association was insolvent. The Division worked with the MEWA to oversee the orderly dissolution of the company and ensure that all claims were paid.

Public Outreach

The Division has begun a public Anti-Fraud campaign. This has consisted of items such as print advertising, signs on Anchorage buses, and public service announcements to convey to the public that the Division is monitoring fraud. The Division would like to continue this effort in the coming fiscal year.

We have also completed a survey of satisfaction with our consumer services section, and have found that consumers are generally satisfied with our service. While satisfaction is often dependent upon whether or not the consumers issue was resolved favorably, the fact that the consumer services section received 331 consumer complaints, which resulted in payments of \$634,228 in CY 2007, demonstrates that the public has been well-served in this area.

Competition

The State of Alaska lacks a healthy, competitive insurance marketplace. The workers compensation market is dominated by relatively few carriers which puts our state at risk of losing a viable option for employers to obtain statutorily mandated coverage. The homeowner's market is fast becoming noncompetitive with two carriers writing a majority of the business and seeking to reduce market share. This, in turn, creates pressure on the real estate industry as sales of property and re-financing depend on the availability of insurance coverage to satisfy the lenders. One key element to be developed will be regulatory modernization to keep Alaska consistent with regulatory practices across the country. In Workers Compensation there are three insurers writing a majority of the market.

Technology

The Division began to create and modify existing software and introduce new technology to enhance current processes. The new technology includes a period of learning that will reduce the efficiency of the programmers until their proficiency is advanced. However, this knowledge will greatly enhance the development of future efficiencies in the Division operations. Use of the State-recommended Stellent as a file repository is software new to the Division. Initial steps taken to implement Stellent were a needs analysis of the filing section and the creation of a Metadata schema for various sections within the Division. There must be more work completed by the Division before there is a tangible result from using Stellent.

Significant Changes in Results to be Delivered in FY2010

No significant changes.

Major Component Accomplishments in 2008

Collected \$60,003,742 in premium taxes, penalties, and fees in FY 2007.

Registered 21 Purchasing Groups.

Admitted 18 new insurance companies. Admitted 11 new surplus lines insurers and two risk retention groups.

Completed four premium tax audits of surplus lines brokers.

Admitted 27 new companies in CY 2007.

Oversaw the liquidation of a multiple employer welfare arrangement with no outstanding consumer claims.

Opened and investigated 331 consumer complaints. Took action that resulted in additional payments of \$634,228 to consumers in calendar year 2007.

Opened 18 criminal investigations and closed 22 in FY 2008. Obtained two criminal convictions.

Issued five bulletins, 16 regulatory orders, six disciplinary orders, three suspension and revocation orders, and completed one major regulatory project.

Continued a pilot project to give priority review to property and casualty form filings if the insurer certifies that the filing complies with Alaska law.

Although we initiated three exams in FY2008, four were completed (one was initiated in 2007 but was completed in July, 2008).

Closed two Alaskan Market Conduct Exams and two multi-state actions. Participated as a lead state in the Healthmarkets national settlement. Obtained significant changes in company behavior, and a \$20 million national settlement.

Our market conduct section recently served as one of two lead states in a nationwide settlement with a health insurance provider. This was a very time consuming, but essential function in addressing practices that crossed jurisdictional lines. Our success showed congress and outside interests clamoring for an increasing federal role in the regulation of insurance that the state regulation of insurance is the ideal model by which the industry should be regulated. The resulting settlement brought reform to the company, a substantial nationwide penalty, and increased protection for the companies' policyholders.

In CY 2008, approved 1,913 rate and form filings and disapproved 68. 1,487 have been questioned and are pending responses from insurers to correct the deficiencies.

Statutory and Regulatory Authority

AS 21 Insurance
3 AAC 21 to 31 Insurance

Contact Information

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Insurance Operations Component Financial Summary

All dollars shown in thousands

	FY2008 Actuals	FY2009 Management Plan	FY2010 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	3,883.3	4,316.4	4,525.5
72000 Travel	193.9	187.5	187.5
73000 Services	1,733.2	1,784.9	1,798.7
74000 Commodities	153.6	59.2	59.2
75000 Capital Outlay	69.4	35.3	35.3
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	6,033.4	6,383.3	6,606.2
Funding Sources:			
1061 Capital Improvement Project Receipts	0.0	0.0	125.3
1156 Receipt Supported Services	6,033.4	6,383.3	6,480.9
Funding Totals	6,033.4	6,383.3	6,606.2

Estimated Revenue Collections

Description	Master Revenue Account	FY2008 Actuals	FY2009 Management Plan	FY2010 Governor
Unrestricted Revenues				
Receipt Supported Services	51073	17,695.8	17,395.8	17,000.0
Unrestricted Fund	68515	48,493.8	48,494.4	45,500.0
Unrestricted Total		66,189.6	65,890.2	62,500.0
Restricted Revenues				
Receipt Supported Services	51073	6,033.4	6,383.3	6,480.9
Capital Improvement Project Receipts	51200	0.0	0.0	125.3
Restricted Total		6,033.4	6,383.3	6,606.2
Total Estimated Revenues		72,223.0	72,273.5	69,106.2

**Summary of Component Budget Changes
From FY2009 Management Plan to FY2010 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2009 Management Plan	0.0	0.0	6,383.3	6,383.3
Adjustments which will continue current level of service:				
-FY2010 Wage and Health Insurance Increases for Bargaining Units with Existing Agreements	0.0	0.0	100.1	100.1
Proposed budget increases:				
-Reflect funding for three Long-Term non-permanent positions working on an existing imaging capital project	0.0	0.0	122.8	122.8
FY2010 Governor	0.0	0.0	6,606.2	6,606.2

**Insurance Operations
Personal Services Information**

Authorized Positions			Personal Services Costs	
	FY2009 Management Plan	FY2010 Governor		
Full-time	53	53	Annual Salaries	3,019,589
Part-time	0	0	COLA	119,680
Nonpermanent	3	3	Premium Pay	0
			Annual Benefits	1,622,698
			<i>Less 4.97% Vacancy Factor</i>	(236,467)
			Lump Sum Premium Pay	0
Totals	56	56	Total Personal Services	4,525,500

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accounting Clerk	0	0	1	0	1
Accounting Tech I	0	0	1	0	1
Actuary	0	0	2	0	2
Administrative Clerk II	3	0	7	0	10
Administrative Clerk III	0	0	1	0	1
Administrative Officer II	0	0	1	0	1
Consmr Service Spec(Insurance)	3	0	0	0	3
Consmr Service Supr(Insurance)	1	0	0	0	1
Dep Dir Insurance	0	0	1	0	1
Division Director	1	0	0	0	1
Ins Financial Exam I	2	0	1	0	3
Ins Financial Exam II	3	0	0	0	3
Ins Financial Exam III	1	0	0	0	1
Insurance Analyst I	0	0	2	0	2
Insurance Analyst II	0	0	3	0	3
Insurance Analyst III	3	0	3	0	6
Insurance Analyst IV	0	0	1	0	1
Insurance Licensing Exam I	0	0	4	0	4
Insurance Licensing Exam II	0	0	1	0	1
Investigator II	1	0	0	0	1
Investigator III	2	0	0	0	2
Investigator IV	1	0	0	0	1
Paralegal II	1	0	0	0	1
Prog Coordinator	0	0	1	0	1
Publications Tech I	0	0	1	0	1
Records & Licensing Spvr	0	0	1	0	1
Secretary	1	0	0	0	1
Tax Auditor III	0	0	1	0	1
Totals	23	0	33	0	56